



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
HENDERSON COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENDERSON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Henderson County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$5,539,535 from the beginning of the year, resulting in a cash surplus of \$8,051,269 as of June 30, 2001.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$15,590,000. Future collections of \$26,459,030 are needed over the next 25 years to pay all bonded debt principal and interest.

Report Comments:

- The Fiscal Court Should Adopt An Administrative Code In Accordance With KRS 68.005
- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,734,421 To Protect Deposits

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
HENDERSON COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES	10
NOTES TO FINANCIAL STATEMENTS	13
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	25
SCHEDULE OF OPERATING REVENUE	29
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	33
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	37
COMMENTS AND RECOMMENDATIONS	41
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS	
APPENDIX B:	
HENDERSON CITY - COUNTY PLANNING COMMISSION AUDITED FINANCIAL STATEMENTS	



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Sandy Lee Watkins, Henderson County Judge/Executive

Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Henderson County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Henderson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Henderson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Henderson County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 10, 2002 on our consideration of Henderson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Henderson County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Fiscal Court Should Adopt An Administrative Code In Accordance With KRS 68.005
- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,734,421 To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 10, 2002

HENDERSON COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Sandy Lee Watkins	County Judge/Executive
Wanda Lee Pruden	Magistrate
Charles G. Alexander	Magistrate
Beverly Key	Magistrate
Donald Hugh McCormick	Magistrate
James C. Hicks	Magistrate

Other Elected Officials:

Charles McCollom	County Attorney
Miles Hart	Jailer
Wilma Martin	County Clerk
William T. Burton	Circuit Court Clerk
Dennis Clary	Sheriff
Steve Hargis	Property Valuation Administrator
Don Cantley	Coroner

Appointed Personnel:

Rebecca Carroll	County Treasurer
Paula Pritchett	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

HENDERSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 4,366,074	
Receivable (Note 4)	24,192	

Road and Bridge Fund:

Cash	47,298	
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Jail Fund:

Cash	143,711	
------	---------	--

Local Government Economic Assistance Fund:

Cash	76,965	
------	--------	--

State Grant:

Cash	21,836	
------	--------	--

Economic Development Fund:

Cash	5,609	
------	-------	--

Payroll Revolving Account - Cash

115,312	\$ 4,800,997
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Special Revenue Fund Type

Cemetery Fund:

Cash	\$ 2,981	
Investments	27,500	30,481

Capital Projects Fund Type

Public Properties Corporation Courts Facility Fund:

Cash	3,358,191
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The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Assets and Other Resources (Continued)

Assets (Continued)

Debt Service Fund Type

Public Properties Corporation Debt Service Fund:

Cash	\$	1,104
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Other Resources

Debt Service Fund Type

Public Properties Corporation Debt Service Fund:

Amounts to be Provided in Future Years for Bond Payments		<u>15,590,000</u>
--	--	-------------------

Total Assets and Other Resources		<u><u>\$ 23,780,773</u></u>
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Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Deferred Revenue (Note 4)	\$	24,192	
Payroll Revolving Account		<u>115,312</u>	\$ 139,504

Debt Service Fund Type

Public Property Corporation Debt Service Fund:

Bond Principal Payments - Detention Center (Note 5)	\$	5,615,000	
Bond Principal Payments - Courts Facility (Note 5)		<u>9,975,000</u>	15,590,000

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances

Reserved:

Debt Service Fund Type

Public Properties Corporation Debt Service Fund:

Detention Center	\$	1,102	
Courts Facility		<u>2</u>	\$ 1,104

Special Revenue Fund Type

Cemetery Fund		30,481
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Capital Projects Fund Type

Public Properties Corporation Courts Facility Fund		3,358,191
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Unreserved:

General Fund Type

General Fund	\$	4,366,074	
Road and Bridge Fund		47,298	
Jail Fund		143,711	
Local Government Economic Assistance Fund		76,965	
State Grant		21,836	
Economic Development		<u>5,609</u>	<u>4,661,493</u>

Total Liabilities and Fund Balances			<u><u>\$ 23,780,773</u></u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

HENDERSON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 10,532,679	\$ 5,718,555	\$ 1,203,160	\$ 2,928,757
Transfers In	3,177,552		920,000	325,000
Cemetery Fund Income	1,402			
Interest Income	329,733			
Kentucky Advance Revenue Program	1,885,500	1,885,500		
Total Cash Receipts	<u>\$ 15,926,866</u>	<u>\$ 7,604,055</u>	<u>\$ 2,123,160</u>	<u>\$ 3,253,757</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 10,378,554	\$ 3,704,037	\$ 2,365,447	\$ 2,751,922
Construction Costs	5,023,386			
Transfers Out	3,177,552	1,770,000		580,650
Bonds:				
Principal Paid	270,000			
Interest Paid	731,409			
Kentucky Advance Revenue Program Repaid	1,885,500	1,885,500		
Total Cash Disbursements	<u>\$ 21,466,401</u>	<u>\$ 7,359,537</u>	<u>\$ 2,365,447</u>	<u>\$ 3,332,572</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (5,539,535)	\$ 244,518	\$ (242,287)	\$ (78,815)
Cash Balance - July 1, 2000	<u>13,590,804</u>	<u>4,121,556</u>	<u>289,585</u>	<u>222,526</u>
Cash Balance - June 30, 2001	<u>\$ 8,051,269</u>	<u>\$ 4,366,074</u>	<u>\$ 47,298</u>	<u>\$ 143,711</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

General Fund Type			Special Revenue Fund Type		Capital Projects Fund Type
Local Government Economic Assistance Fund	State Grants	Economic Development	Dry Hydrant	Cemetery Fund	Public Properties Corporation Courts Facility Fund
\$ 461,877 528,904	\$ 220,239 444,327	\$ 75 5,534	\$ 16	\$ 1,402	\$ 329,327
<u>\$ 990,781</u>	<u>\$ 664,566</u>	<u>\$ 5,609</u>	<u>\$ 16</u>	<u>\$ 1,402</u>	<u>\$ 329,327</u>
 \$ 918,322 444,327	 \$ 638,826 3,904	 \$ 5,609	 \$ 5,534	 \$ 1,402	 \$ 5,023,386 373,137
<u>\$ 1,362,649</u>	<u>\$ 642,730</u>	<u>\$ 0</u>	<u>\$ 5,534</u>	<u>\$ 0</u>	<u>\$ 5,396,523</u>
 \$ (371,868) 448,833	 \$ 21,836 0	 \$ 5,609 0	 \$ (5,518) 5,518	 \$ 1,402 29,079	 \$ (5,067,196) 8,425,387
<u>\$ 76,965</u>	<u>\$ 21,836</u>	<u>\$ 5,609</u>	<u>\$ 0</u>	<u>\$ 30,481</u>	<u>\$ 3,358,191</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	Debt Service Fund Type
	Public Properties Corporation Debt Service Fund
<u>Cash Receipts</u>	
Schedule of Operating Revenue	\$
Transfers In	953,787
Cemetery Fund Income	
Interest Income	406
Kentucky Advance Revenue Program	
Total Cash Receipts	<u>\$ 954,193</u>
<u>Cash Disbursements</u>	
Comparative Schedule of Final Budget and Budgeted Expenditures	\$
Construction Costs	
Transfers Out	
Bonds:	
Principal Paid	270,000
Interest Paid	731,409
Kentucky Advance Revenue Program Repaid	
Total Cash Disbursements	<u>\$ 1,001,409</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (47,216)
Cash Balance - July 1, 2000	<u>48,320</u>
Cash Balance - June 30, 2001	<u><u>\$ 1,104</u></u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Henderson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Henderson County Public Properties Corporation as part of the reporting entity.

Henderson County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC, legally entitled to the PPC's resources, as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Henderson County's financial statements.

Additional - Henderson County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Henderson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Henderson County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Henderson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, State Grant Fund, and Economic Development Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Dry Hydrant Fund and Cemetery Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Debt Service Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Properties Corporation Courts Facility Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the County utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Henderson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Funds because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Henderson County Fiscal Court:

Henderson County Tourism Commission
Henderson City-County Rescue Squad

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 2. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

A. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$801,264 of public funds uninsured and unsecured. Also, on August 31, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,734,421 of public funds uninsured and unsecured.

The County's deposits are categorized below to give an indication of the level of risk assumed by the County as of June 30, 2001.

	<u>Bank Balance</u>
Insured or collateralized with securities held by the County's agent in the County's name	\$ 2,867,233
FDIC Insured	1,280,000
Uncollateralized and uninsured	<u>801,264</u>
Total	<u><u>\$ 4,948,497</u></u>

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 3. Deposits and Investments (Continued)

B. Investments

The County's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the County or by the County's agent in the County's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the County's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Repurchase Agreements	\$ 27,500	\$	\$	\$ 27,500	\$ 28,897

Note 4. Receivable

The County loaned \$30,400 to the Henderson County Water District on December 31, 1985 for the purpose of constructing water lines to communities of Reed and Beels. Terms of the agreement stipulate a 20-year repayment schedule. Under the terms of the agreement, no interest is charged on the outstanding balance. The Henderson County Water District is in substantial compliance with the terms of the agreement. As of June 30, 2001, principal balance due was \$24,192.

Note 5. Long-Term Debt

A. Detention Center

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Center Project) Series 1995 on June 29, 1995, for the purpose of paying the cost of constructing a new county detention facility and the cost of issuance of the bonds. The issue amount of the bonds was \$7,060,000. The corporation and the County have entered into an annually renewable lease, dated June 1, 1995, wherein the County leases the detention facility from the corporation at an agreed rental which will be used to pay the principal and interest on the bonds.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Long-Term Debt (Continued)

A. Detention Center (Continued)

The Henderson County Public Properties Corporation entered into a lease agreement with the County in which the County will lease from the corporation the detention center facility in the amount of the aggregate of the interest on and the principal of the bonds, which are due and payable during the lease period, the cost of operation and maintenance of the project, the cost of insuring the project and the annual trustee fee. Rental payments are due semiannually on May 20th and November 20th of each year. The interest rate on the bonds is 5%. The outstanding balance as of June 30, 2001 was \$5,615,000.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2001-2002	\$ 297,150	\$ 285,000
2002-2003	282,900	300,000
2003-2004	267,900	315,000
2004-2005	252,150	330,000
2005-2006	235,650	345,000
Later Years	<u>1,181,300</u>	<u>4,040,000</u>
Totals	<u>\$ 2,517,050</u>	<u>\$ 5,615,000</u>

B. Courts Facility

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Courts Facility Project), Series 2000 on April 15, 2000 for the purpose of financing the cost of the acquisition, construction, and equipping of a court facility and the cost of issuance of the bonds. The issue amount of the bonds was \$9,975,000. The corporation and the County have entered into an annually renewable lease, dated April 15, 2000, wherein the County leases the courts facility from the corporation at an agreed rental which will be used to pay the principal and interest on the bonds.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Long-Term Debt (Continued)

B. Courts Facility (Continued)

The Henderson County Public Properties Corporation and the Henderson County Fiscal Court entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), in which the AOC wishes to use the courts facility and will sublease from the corporation the courts facility, and make payments in the amount of the courts share of the interest on and the principal of the construction of a courts facility, but not to exceed 8% annually of capital costs. The lease is renewable April 15th of each even numbered year. Rental payments are due semiannually on January 20th and July 20th of each year. The interest rate on the bonds is 5.55%. The outstanding balance as of June 30, 2001 was \$9,975,000.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2001-2002	\$ 529,626	\$ 330,000
2002-2003	514,446	215,000
2003-2004	504,342	225,000
2004-2005	493,542	235,000
2005-2006	482,144	245,000
Later Years	<u>5,827,880</u>	<u>8,725,000</u>
Totals	<u>\$ 8,351,980</u>	<u>\$ 9,975,000</u>

Note 6. Lease-Purchase Agreements

The County has entered into the following lease-purchase agreements:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Sheriff Vehicles	3/18/1997	4/20/2002	3.75%	\$ 14,064
Gradall	8/15/1998	8/15/2001	5.59%	49,286

Note 7. Commitments and Contingencies

A. Industrial Revenue Bonds

The Henderson County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds and Pollution Control Bonds. Such bond issues do not constitute a general debt, liability, or moral obligation of Henderson County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these various bond issues.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Commitments and Contingencies (Continued)

B. Ambulance Service Agreement

In April 1983, the County of Henderson, along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a county-wide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this arrangement for fiscal year ended June 30, 2001, were \$223,221.

C. Solid Waste Interlocal Agreement

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Henderson entered into an interlocal agreement with Union and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2001, were \$3,121.

D. Tri-County Interlocal Agreement for a New Water and Wastewater Treatment Facility.

The County of Henderson entered in an interlocal agreement with the Counties of Webster and McLean, the City of Henderson, and the City of Henderson Water and Sewer Commission, to which the local government agrees to supplement the City of Henderson Water and Sewer Commission's debt service on the Water and Wastewater Treatment Facility in southern Henderson County on an equal basis should the excess revenues generated by the facility be less than the amount necessary to fund the debt service required for the related facility. The County's portion of expenses were \$14,000 for fiscal year ended June 30, 2001.

E. Solid Waste Transfer Station Interlocal Agreement

The County of Henderson entered into a agreement with the City of Henderson to fund 50% of the construction and operation of solid waste transfer station to be used in the collection and disposal of solid waste collected within the City and County. The agreement is for a five-year period, beginning July 1, 1995 and ending June 30, 2001, with the option to renew for four consecutive five-year terms unless written notice is provided by either party. The County's portion of operational costs for fiscal year ended June 30, 2001, was \$283,188.

Note 8. Insurance

For the fiscal year ended June 30, 2001, Henderson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 9. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the Jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the Jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Henderson County Jail Canteen Fund had income of \$180,130, less cost of goods sold of \$119,368. Other profit expenditures of \$70,414 were for the benefit and/or recreation of the inmates.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

HENDERSON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 4,809,030	\$ 5,718,555	\$ 909,525
Road and Bridge Fund	1,363,523	1,203,160	(160,363)
Jail Fund	2,813,883	2,928,757	114,874
Local Government Economic Assistance Fund	433,817	461,877	28,060
State Grant Fund	2,052,000	220,239	(1,831,761)
Economic Development Fund	350,000	75	(349,925)
Totals	<u>\$ 11,822,253</u>	<u>\$ 10,532,663</u>	<u>\$ (1,289,590)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 11,822,253
Add: Budgeted Prior Year Surplus	1,832,259
Less: Other Financing Uses	<u>(580,650)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 13,073,862</u>

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SCHEDULE OF OPERATING REVENUE

HENDERSON COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
Taxes	\$ 2,926,206	\$ 2,926,206	\$
In Lieu Tax Payments	90,283	90,283	
Excess Fees	73,494	73,494	
Licenses and Permits	199,906	199,906	
Intergovernmental Revenues	6,409,451	6,409,451	
Charges for Services	50,649	50,649	
Miscellaneous Revenues	436,670	436,670	
Interest Earned	346,020	346,004	16
Total Operating Revenue	<u>\$ 10,532,679</u>	<u>\$ 10,532,663</u>	<u>\$ 16</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

HENDERSON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,873,549	\$ 2,651,795	\$ 221,754
Protection to Persons and Property	2,919,804	2,948,063	(28,259)
General Health and Sanitation	486,100	452,167	33,933
Social Services	246,640	290,009	(43,369)
Recreation and Culture	183,100	123,943	59,157
Roads	2,081,499	2,138,336	(56,837)
Bus Service	32,500	32,500	
Other Transportation Facilities and Services	10,000		10,000
Debt Service	59,101	52,044	7,057
Capital Projects	2,851,080	516,464	2,334,616
Administration	1,330,489	1,173,233	157,256
Total Operating Budget - All General Fund Type	\$ 13,073,862	\$ 10,378,554	\$ 2,695,308
Other Financing Uses:			
Transfers to Public Property			
Corporation Bond Fund-			
Principal	270,000	270,000	
Interest	310,650	310,650	
TOTAL BUDGET - ALL GENERAL FUND TYPE	<u>\$ 13,654,512</u>	<u>\$ 10,959,204</u>	<u>\$ 2,695,308</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Henderson County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated July 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Henderson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations

- The Fiscal Court Should Adopt An Administrative Code In Accordance With KRS 68.005.
- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,734,421 To Protect Deposits.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henderson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 10, 2002

COMMENTS AND RECOMMENDATIONS

HENDERSON COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2001

1) The County Should Adopt An Administrative Code In Accordance With KRS 68.005

KRS 68.005 requires the County to adopt an administrative code as noted below. As of June 30, 2001, the County has not complied with KRS 68.005(1), which requires that the fiscal court adopt a county administrative code which includes, but is not limited to, procedures and designation of responsibility for:

- General administration of the office of county judge/executive, county administrative agencies, and public authorities;
- Administration of county fiscal affairs, including budget formulation, receipt and disbursement of county funds and preparation of records required for the county audit, and filing of claims against the county;
- Personnel administration, including description and classification of non-elected positions, selection, assignment, supervision, and discipline of employees, employee complaints and the county affirmative action program;
- County purchasing and award of contracts; and
- Delivery of county services.

The fiscal court should review the county administrative code annually during the month of June and may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time. The county judge/executive may at other times prepare and submit amendments to the code for the approval of a majority of the fiscal court. We recommend that the county adopt an administrative code.

County Judge/Executive Sandy Lee Watkins' Response:

The County Judge/Executive has adopted an investment policy and a personnel policy, he and his staff are drafting a proposed administrative code to be presented to fiscal court.

2) The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,734,421 To Protect Deposits

On June 30, 2001 and August 31, 2000, the County's deposits of public funds in depository institutions in the amount of \$801,264 and \$1,734,421 respectively were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Sandy Lee Watkins' Response:

The county will require the financial institutions to pledge or provide collateral sufficient to secure deposits.

PRIOR YEAR FINDING:

The prior year finding, "The Fiscal Court Should Adopt An Administrative Code," was not corrected and is discussed above.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

HENDERSON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

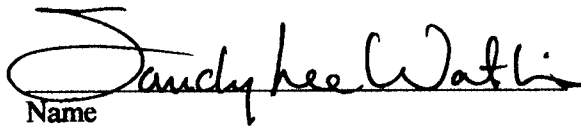
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

HENDERSON COUNTY FISCAL COURT

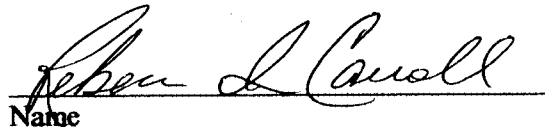
Fiscal Year Ended June 30, 2001

The Henderson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

HENDERSON CITY - COUNTY PLANNING
COMMISSION AUDITED FINANCIAL STATEMENTS

HENDERSON CITY-COUNTY PLANNING COMMISSION

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2001

CRAFTON, WILSON & CO., CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

CLARENCE C. CRAFTON, CPA

BILLIE C. WILSON, CPA

223 NORTH MAIN STREET
HENDERSON, KENTUCKY 42420-3155
TELEPHONE (270) 826-1550
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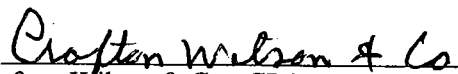
INDEPENDENT AUDITORS' REPORT

Members of the Commission
Henderson City-County Planning Commission
Henderson, Kentucky

We have audited the accompanying balance sheet of Henderson City-County Planning Commission as of June 30, 2001, and the related statements of revenues and expenditures, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Henderson City-County Planning Commission as of June 30, 2001, and the results of its operations, changes in fund balances and cash flows for the year then ended in conformity with generally accepted accounting principles.


Crafton, Wilson & Co., CPA, LLP

July 13, 2001

HENDERSON CITY-COUNTY PLANNING COMMISSION
BALANCE SHEET
JUNE 30, 2001

	<u>GENERAL FUND</u>	<u>GENERAL FIXED ASSETS</u>	<u>TOTAL MEMO ONLY</u>
ASSETS			
Cash	\$ 29,100	\$ -	\$ 29,100
Excess contributions due from City of Henderson and County of Henderson - NOTE B	13,800	-	13,800
Equipment - at cost	-	24,784	24,784
TOTAL ASSETS	<u>\$ 42,900</u>	<u>\$ 24,784</u>	<u>\$ 67,684</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,118		\$ 4,118
Amounts withheld from employees	163		163
Recording fees advanced	504		504
Amounts held for public improvement - NOTE C	24,970		24,970
County map escrow	12,280		12,280
TOTAL LIABILITIES	<u>\$ 42,035</u>		<u>\$ 42,035</u>
 FUND BALANCES			
General fund	\$ 865	\$ -	\$ 865
General fixed assets	-	24,784	24,784
TOTAL FUND BALANCES	<u>\$ 865</u>	<u>\$ 24,784</u>	<u>\$ 25,649</u>
	<u>\$ 42,900</u>	<u>\$ 24,784</u>	<u>\$ 67,684</u>

See Independent Auditors' Report
and Notes to Financial Statements

HENDERSON CITY-COUNTY PLANNING COMMISSION
STATEMENT OF REVENUES AND EXPENDITURES
For the Year Ended June 30, 2001

	ACTUAL	BUDGET	ACTUAL OVER (UNDER) BUDGET
REVENUES			
City of Henderson	\$ 122,100	\$ 122,100	\$ -
County of Henderson	122,100	122,100	-
City of Corydon	1,000	1,000	-
Interest income	677	-	677
TOTAL REVENUES	<u>\$ 245,877</u>	<u>\$ 245,200</u>	<u>\$ 677</u>
EXPENDITURES			
Salaries - Regular	\$ 148,682	\$ 148,444	\$ 238
Salaries - Overtime	1,586	2,400	(814)
Payroll taxes	11,180	11,541	(361)
Unemployment taxes	6,934	30	6,904
Life insurance	94	120	(26)
Health insurance	37,800	25,200	12,600
Employee assistance	167	60	107
Workmen's compensation insurance	619	750	(131)
Liability insurance	201	220	(19)
Retirement	12,862	13,019	(157)
Office expense	1,698	1,300	398
Postage	603	1,500	(897)
Books and maps	859	800	59
Equipment maintenance	157	300	(143)
Telephone	2,791	2,400	391
Dues and meetings	2,196	1,770	426
Travel	3,680	3,770	(90)
Advertising	3,863	3,800	63
Rent	4,800	4,800	-
Printing and blue print	1,247	3,000	(1,753)
Professional services	1,483	2,000	(517)
Member reimbursements	3,600	5,000	(1,400)
Meeting expense	576	550	26
Auto expense	5,110	5,641	(531)
Equipment rental	2,075	2,010	65
Capital expenditures	4,415	4,475	(60)
Recording fees	(6)	-	(6)
Education	405	300	105
TOTAL EXPENDITURES	<u>\$ 259,677</u>	<u>\$ 245,200</u>	<u>\$ 14,477</u>
EXCESS EXPENDITURES OVER REVENUES	<u>\$ (13,800)</u>	<u>\$ -</u>	<u>\$ (13,800)</u>

See Independent Auditors' Report
and Notes to Financial Statements

HENDERSON CITY-COUNTY PLANNING COMMISSION
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

	GENERAL FUND	GENERAL FIXED ASSETS	TOTAL MEMO ONLY
Fund balance at beginning of year	\$ 865	\$ 39,327	\$ 40,192
Excess of revenues over expenditures for the year ended June 30, 2001	(13,800)	-	(13,800)
Balance due City of Henderson and County of Henderson - excess expenditures over revenues - NOTE B	13,800	-	13,800
Additions to equipment	-	4,414	4,414
Disposals of equipment	-	(18,957)	(18,957)
FUND BALANCE AT END OF YEAR	<u>\$ 865</u>	<u>\$ 24,784</u>	<u>\$ 25,649</u>

See Independent Auditors' Report
 and Notes to Financial Statements

HENDERSON CITY-COUNTY PLANNING COMMISSION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss for the year	\$ (13,800)
Adjustments to derive cash effect	
Increase in accounts payable	3,658
Increase in balance due from City of Hendeson and County of Henderson	(13,340)
Increase in employee withholding	163
Decrease in accrued expenses	(315)
Decrease in recording fees advanced	(132)
Increase in amounts held for public improvements	1,470
Balance due from City of Henderson and County of Henderson charged against fund balances	<u>13,800</u>
CASH PROVIDED FROM OPERATIONS AND INCREASE IN CASH	\$ (8,496)
CASH AT BEGINNING OF YEAR	<u>37,596</u>
CASH AT END OF YEAR	<u><u>\$ 29,100</u></u>

SUPPLEMENTARY DATA:

Cash and cash equivalents include both operating and interest bearing accounts.
Interest paid during year \$-0-

See Independent Auditors' Report
and Notes to Financial Statements

HENDERSON CITY-COUNTY PLANNING COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2001

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Henderson City-County Planning Commission (Commission) was created by authority of Chapter 100 of the Kentucky Revised Statutes and the agreement with the City of Henderson, County of Henderson, and City of Corydon.

Depreciation – Depreciation expenses are not recorded in the accounts.

Retirement Benefits – The Commission's employees are provided with retirement benefits through the International City Managers Association. Such benefits are provided by employer contributions based upon 8.77% of an employee's base salary.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

Fixed Assets – Fixed assets purchased by the Commission are recorded as expenses when purchased.

Fund Totals – Fund totals are presented as memo totals and are not intended to present consolidated financial statements.

NOTE B – EXCESS CONTRIBUTIONS

The operating agreement between the Planning Commission and the City of Henderson, County of Henderson, and City of Corydon states in part "all costs incurred by the commission, not met by Federal and/or State monies shall be paid by the participating cities and county as follows:

City of Corydon	\$1,000 per year
City of Henderson	50% of Balance
County of Henderson	50% of Balance"

In accordance with the terms of this agreement the excess expenditures due are represented by the excess expenditures by the Commission over advances received by the Commission.

NOTE C – AMOUNTS HELD FOR PUBLIC IMPROVEMENTS

During the year, the Commission collected from developers funds which were in lieu of bonds or letters of credit. The Commission's regulations require these funds be held until the developer completes and receives acceptance of all public improvements required in his approved development. These funds may be refunded to the developer or used to pay for any necessary public improvements.

HENDERSON CITY-COUNTY PLANNING COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2001

NOTE D – OPERATING LEASES

The Planning Commission executed leases for the rental of equipment. The following is a schedule by years of future minimum rental payments required under the operating leases that have initial or remaining noncancellable lease terms in excess of one year at June 30, 2001.

June 30, 2002	\$	6,413.76
June 30, 2003		2,962.56
June 30, 2004		2,272.32
June 30, 2005		2,272.32
June 30, 2006		1,704.24
	\$	<u>15,625.20</u>

